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City-regions, International Business and (Uneven) Development: Some Observations and Themes for Future Research

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Symposium on Cities and the Strategies of Multinational Corporations

British Academy of Management Annual Conference, 8-10 September 2015, University of Portsmouth

City-regions, International Business and (Uneven) Development: Some Observations and Themes for Future Research

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Agenda

- A. Pre-amble: IB and economic geography – disciplinary distinctions & overlaps
- B. Previous work on MNEs and (regional/sub-national) economic development
- C. IB, cities and (uneven) development – some (inter-related) themes for future work?**
 - 1. *City-regions and the analysis of FDI and offshoring location decisions*
 - 2. *City-regions and MNEs' spatial and organisational strategies*
 - 3. *Beyond 'World Cities' for a more comprehensive look at IB & city-regions*
 - 4. *(Changing) City-region roles within the semi-globalized economic system*
 - 5. *City-regions, IB activity and sub-national inequality*
 - 6. *City-regions and 'subsidiary management' themes*

} Not considered here

A. IB and economic geography – disciplinary distinctions

Key concerns and approaches

International Business

- “...how and why cross-national differences **matter** and how businesses are able to **transcend national** (and other) differences...” (Meyer, 2013, p.10)
- A core research theme: the **activities, strategies, structures and decision-making processes of multinational enterprises** (but an increasingly diverse research agenda)
- "A central theme in IB studies... is **the search for ‘universal truths’ or general principles**. This sits alongside a second IB theme, that locations or places vary and **context matters...**" (Collinson et al, 2013)
- Quantitative, positivist approaches dominate

Economic Geography

- “...to offer **multi-faceted explanations for economic processes** – growth and prosperity as well as crises and decline – **manifested across territories at various scales**...”
- ...study **geographically-specific factors** that shape **economic processes** and identify **key agents** (incl. firms) and **drivers** that prompt **uneven territorial development**...” (Aoyama et al., 2010, p.1)
- interested in, and concerned to **explain, unique, one-of-a-kind outcomes for particular places**, which are viewed as a consequence of the interplay between wider trans-local processes and particular local conditions
- Qualitative, in-depth methodologies dominate

A. IB and economic geography – disciplinary distinctions

Key geographical concepts

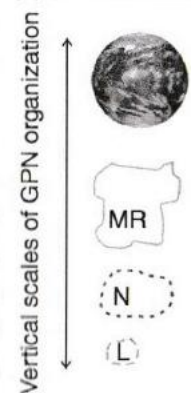
‘Location’ and ‘distance’ (IB)

- IB has traditionally privileged the ‘national’ (country) scale – MNEs as ‘border-crossing’
- Some (growing) recognition of other scales – e.g. regionalisation, sub-national clusters
- ‘Locations’ as *containers* of resources and institutions (as in Meyer et al, 2011)
 - To geographers, a simplistic and ‘passive’ conception of geographic space?
- ‘Distance’ as a multi-dimensional construct but primarily associated with national borders and differences between countries
 - Typically a ‘frictional’ impediment to IB

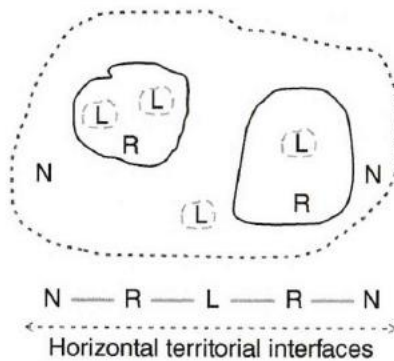
‘Place’ (economic geography)

- EG considers a variety of scales, since the economic processes that shape the fortunes of particular places operate at a variety of spatial scales (Dicken, 2011; Henderson et al., 2002).
- But ‘place’ is most frequently applied to sub-national units (local, regional, urban) – and there is a concern for ‘regional development’
- **Places are endowed with meaning and significance, have economically-significant cultural and political aspects, are unique and specific, and are the product of the interaction of wider extra-local processes and local specificities and history**

(a) Vertical dimensions



(b) Horizontal interfaces



(c) GPN territoriality

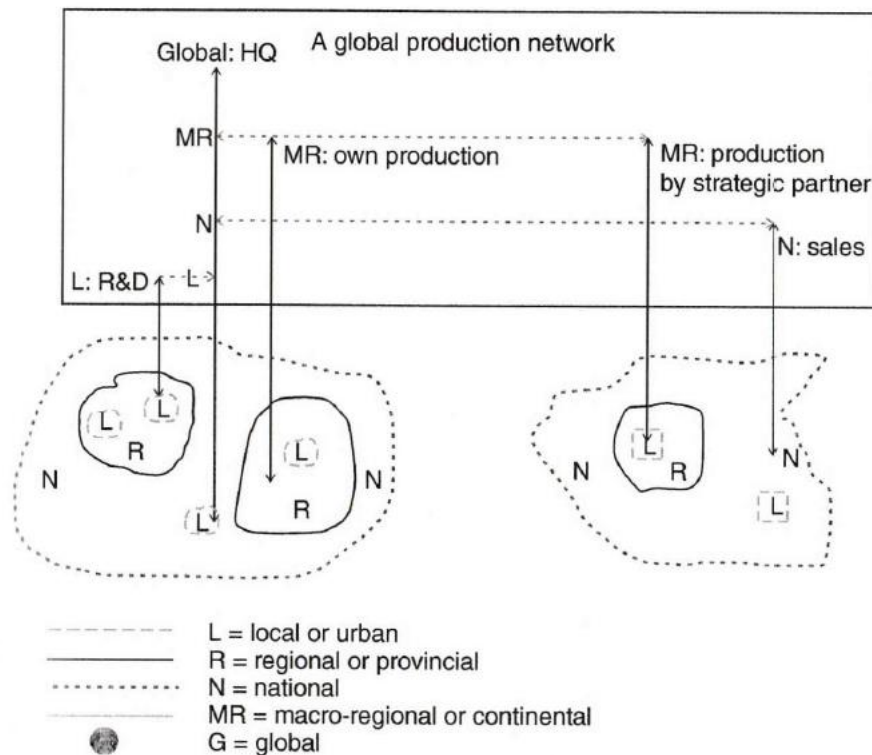
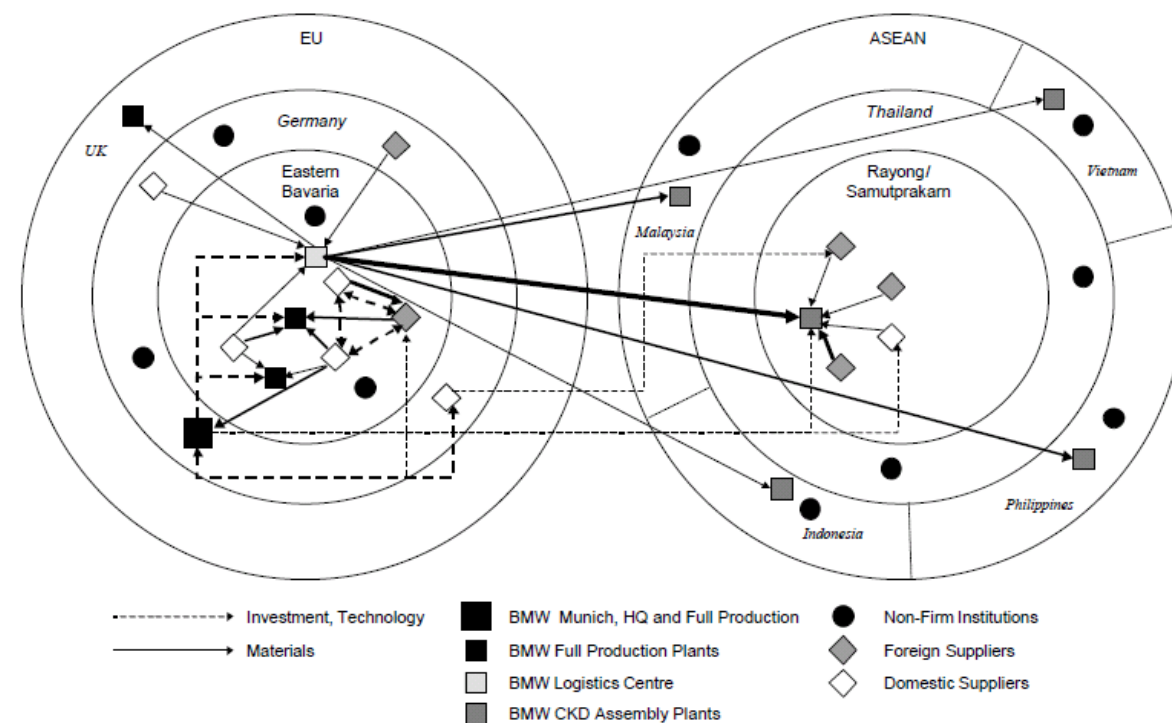


Figure 2.4. Territoriality of global production networks

< Coe & Yeung (2015) on Territoriality of GPNs (a multi-scalar and relational perspective)

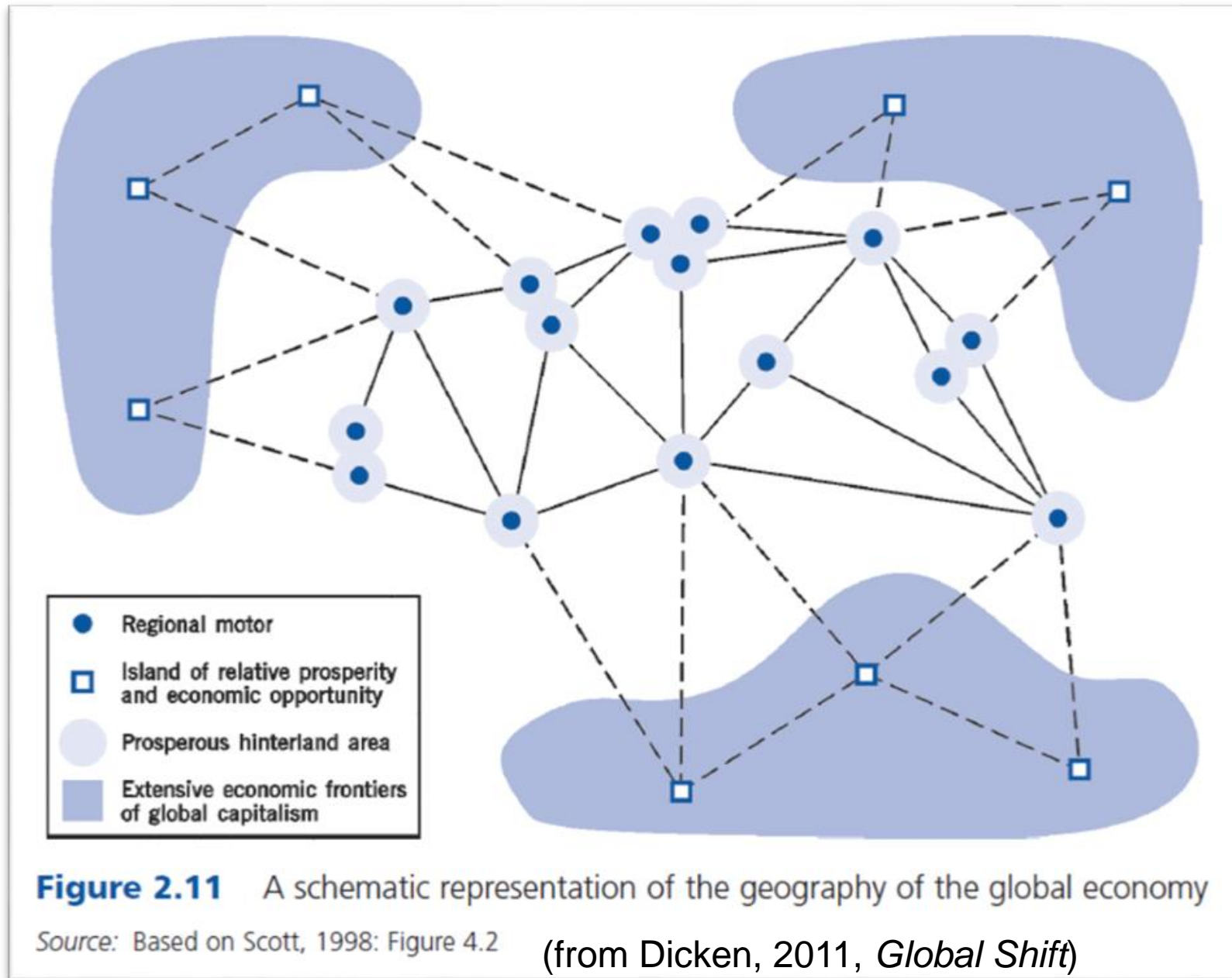
Illustration: mapping BMW's GPN in 2 macro-regions

Figure 3: BMW's GPN and Regions in the EU and ASEAN



[Source: GPN Working Paper 3, Univ. Manchester]

What does the global economy look like to (some) economic geographers?



Some observations...

- City-regions ('places') as '**nodes**' in **global production networks** (and/or the world city network?)
- 'Places' and GPNs/TNCs are seen as 'mutually constitutive'
- Core-periphery dimension (influenced by Wallerstein's world systems theory and Marxian political-economy?)
- Implicit recognition of uneven development as an inherent feature of capitalism (ditto)
- Implies existence of globally significant city-regions in both developed and emerging countries
- A notably absence of national boundaries and 'distance' effects in this depiction (contrary to the IB view)
- Reflects Scott's (contestable) view that city-regions have supplanted nations as the key organising unit

(Some) similarities with Buckley's (2009, 2011) writings on “global factory” (and other recent/related work in IB)...

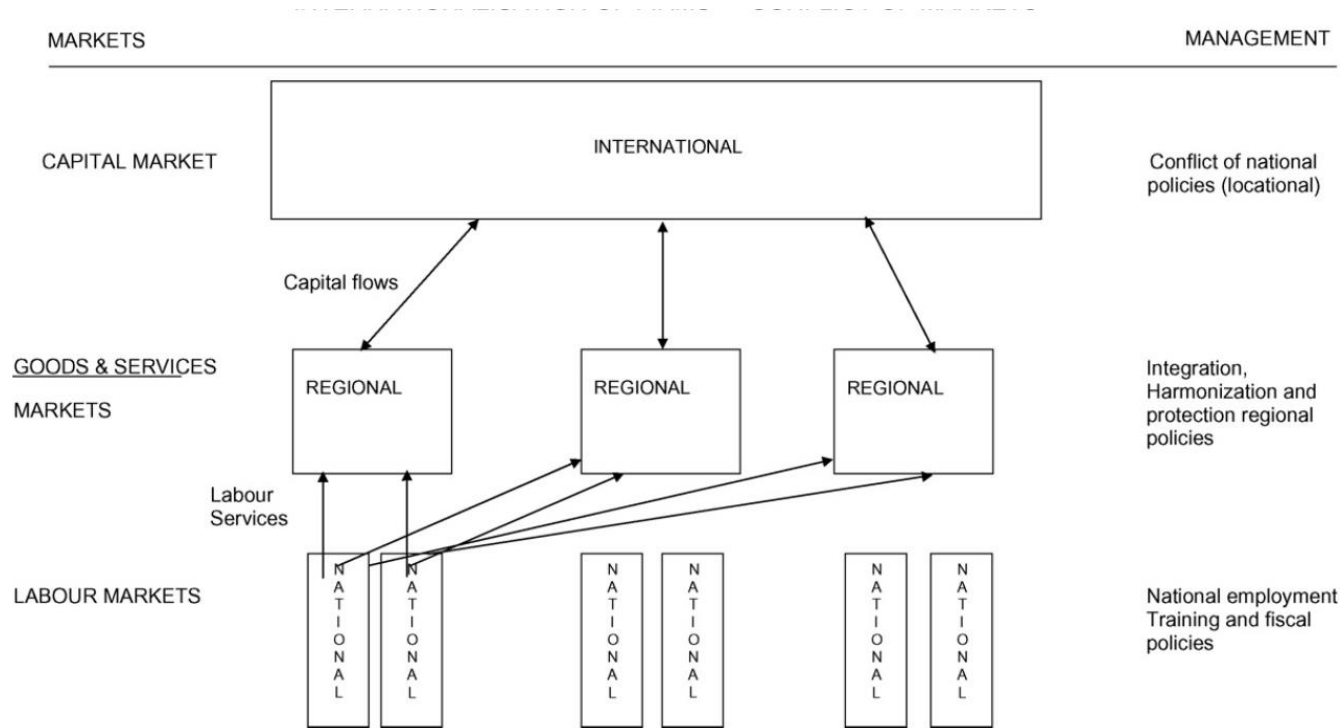


Fig. 1. Internationalisation of firms – conflict of markets.

The operation of different markets at different spatial scales *implies* a need for multi-scalar analysis of IB / location behaviour (similar arguments could be made wrt the institutional landscape?)

[But note: sub-national scales not recognised here]

‘fine-slicing’ of the value chain; lead firms make geographic location and firm boundary decisions, (may) exert control w/out ownership

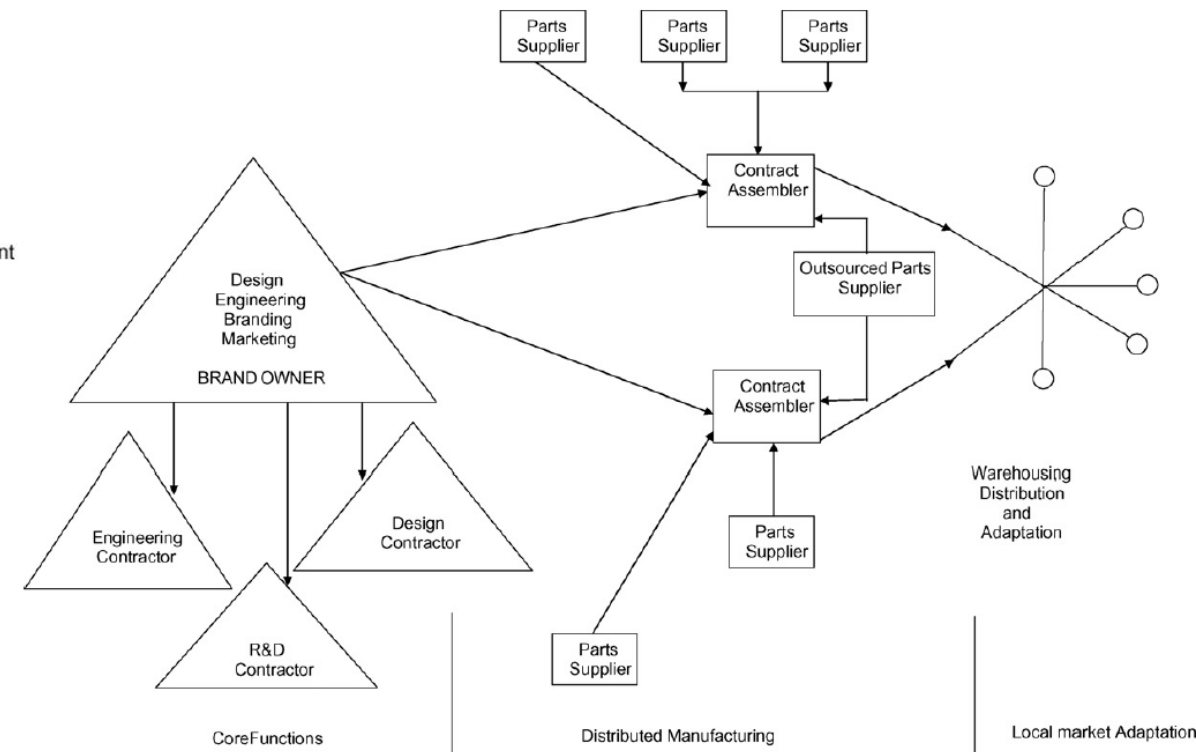


Fig. 2. The Global Factory – Globally Distributed Operations.

B. Previous work on MNEs and (regional/sub-national) economic development

- In fields of regional studies, economic geography and urban & regional economics – a sizeable literature on the ‘MNE-region nexus’, including
 - Including (largely empirical) work on **FDI in peripheral regions**, issues of external control, functional truncation and the **branch plant syndrome** (starting from Firn, 1975; Dicken, 1976; Holland, 1976; Watts, 1981; continuing into 1990s and beyond)
 - Regions not cities as the primary focus (though role of major cities as command-and-control centres in core-periphery relations was implicit)
 - Distinct but related work on ‘spatial divisions of labour’ (Doreen Massey) and ‘spatial fix’ (David Harvey) – Marxian political economy tradition but the roots of later ‘relational perspectives’ (like GPN) => *development outcomes for specific cities/regions must be seen in the context of a wider (capitalist) system characterised by uneven development*
 - Some overlaps with work of IB scholars such as Young & Hood on host economy impacts of MNEs/FDI – e.g. Young et al (1994) ‘developmental’ and ‘dependent’ scenarios

B. (contd): The Global Production Network (GPN) approach and its 'strategic coupling' concept (from economic geography)

“**The fortunes of regions are shaped** not only by what is going on within them, but also **through wider sets of relations of control and dependency, of competition and markets ...increasingly occur at the international scale...**

the strategic coupling of global production networks and regional assets may (or may not, depending on the context) facilitate the processes of the **creation, enhancement and capture of value** upon which **regional development** ultimately depends”

(Coe et al, 2004, p.469)

Key observations:

- MNCs are ‘lead firms’ orchestrating GPNs
- Regional development as ‘value capture’ from engagement with GPNs
- Strategic coupling as a process mediated by *local institutional actors* (a fact largely unacknowledged in the IB literature)

C. IB, cities and (uneven) development

– some (inter-related) themes for future work...

Theme 1.

City-regions and analysis of FDI (and offshoring) location decisions

a) In the context of ‘fine-slicing’ and increasingly complex geographical and firm boundary decisions, a need for greater attention / further research on **location decisions at the city-region scale?**

- Example: Bunyaratevej et al.'s (2008) study of the offshore services location choices of US MNEs, indicators of location-specific advantages and factor costs are **only considered at the country level**, even for countries like India that are clearly characterised by **huge sub-national variations**

Although Dunning acknowledged the relevance of sub-national location factors, notably ‘clusters’ there has been **relatively little attention to sub-national (especially city-scale) location decisions** in the IB literature (exception: Goetzen et al, 2013 – focus on Japanese MNCs’ propensity to locate in world cities – quite specific).

- Yet practitioner literature includes the notion of **Tier 1, 2, 3** cities in offshore (destinations) countries
- FDI consultants are very focused on ‘cities’ as the key unit of analysis in MNC location choices
- We need more IB studies on the **location of different value chain activities at a city-region scale**, since this changing geography of FDI has major **implications for development**

Theme 1.

City-regions and analysis of FDI (and offshoring) location decisions

- b) **Cities as ‘active’ participants in the location decision-making process** - informed by the ‘strategic coupling’ concept from the GPN literature in economic geography?
 - **Local institutional actors** have been shown to play a key role in ‘coupling’ specific places (typically city-regions) with wider global production networks (e.g. TNC lead firms).
 - The role of these host economy *actors* largely overlooked in the IB literature, which typically adopts a firm-centric perspective, with bounded rationality assumptions.
- We need for more IB studies that recognise and examine the interactions between **local actors in specific places** (e.g. cities) and MNC strategies within GPNs
 - e.g. To what extent, and how, can/do local actors influence MNC locational strategies and affect **development outcomes**? What development strategies can/should be pursued and on what basis?
 - **Methodological challenges** – may necessitate more qualitative, case study approaches (possibly longitudinal) to examine dynamics and uncover underlying processes

Theme 2.

City-regions and MNEs' (spatial and organisational) strategies

- Contrast analysis of FDI location decisions (UoA = specific investment decisions / projects) with a **more holistic perspective on MNC location strategies**, whereby individual FDI location decisions are seen as part of a **wider (changing) geographical and organisational footprint**, related to firm strategy
 - This issue seems to be largely overlooked in the existing (esp. recent) IB literature on location issues
 - Contrast with seminal work of Bartlett & Ghoshal on MNC strategy and organisation (which examined the strategy and organisation of specific firms like P&G, Philips, etc); a few more recent examples would include Mudambi's exposition of the Apple iPhone 'value smile', Kraemer & Dedrick's work on Dell
 - Some interesting articles in GSJ (2011) on 'assembling the global enterprise' demonstrate some of the issues and avenues for research on this theme. But there is a need to explore the sub-national scale in future work
 - An interesting research question: *Is the ability to identify and exploit different sub-national (city-region scale) location-specific advantages (becoming) a distinctive firm-specific advantage for leading MNCs?*
- We need IB studies that take a **more holistic perspective on MNCs (changing) locational strategies**, in the context of fine-slicing, offshoring and outsourcing
 - **Methodological challenges** – may necessitate more qualitative, case study approaches (possibly longitudinal) perhaps focusing on specific sets of firms and specific industry sectors

Theme 3.

Beyond ‘World Cities’ for a more comprehensive look at IB & city-regions

- Recent recognition of the importance of cities IB has so far focused primarily on world cities, especially ‘alpha’ cities (NY-London), as locations of command-and-control, following the lead of authors in economic geography and other social sciences.
 - There is a tendency for research to **privilege ‘world cities’** but this also reflects a certain ‘selection bias’ due to the focus on **HQ functions** and their co-location with advanced **financial and business services**.
 - There is also a lot of focus on **innovation and knowledge sourcing** by MNCs
 - Given the ‘fine-slicing’ and offshoring/outourcing tendencies, what about the **rest of the value chain**? This has significant implications for the development of many places!
 - e.g. interesting recent paper by Mans (2014) looks at ‘end-nodes’ as well as ‘hub-nodes’ in GPNs/WCN, (focusing on the case of Khartoum in the oil industry).
- We need IB studies that examine a **wider range of city-regions** and expose their varied roles in IB activity (MNC location strategy) – and consider the implications for development.

Theme 4.

(Changing) City-region roles within the semi-globalized economic system

- Following on from the previous point, there are many unexplored issues concerning the **roles played by lower-tier cities within the IB landscape**; e.g. Tier 2 and Tier 3 cities in large emerging countries, or cities beyond national capitals in developed countries.
 - e.g. Coe & Yeung (2015, p.186) identify **eight types of ‘regional coupling with GPNs’** – of which, ‘global cities’ are but one (e.g. innovation hubs, offshore jurisdictions, logistics hubs, commodity source regions)
 - A trend towards **functional role (rather than sectoral) specialisation** has been noted by urban economists (e.g. Duranton and Puga, 2005) and this seems consistent with noted recent trends in IB strategy.
- There is a need for greater investigation and understanding of the **varied roles played by different city-regions** within the evolving international division of labour – and development implications!
- A related question concerns **how and why these city-region roles evolve over time**.
 - e.g. how and why have city-regions like Dublin, Singapore, Bangalore evolved so radically in a few decades
 - Already significant body of work on these issues in urban and economic geography but this could be enhanced by a greater focus on, or linkage to, core IB issues (e.g. MNC strategy and organisation)
 - Possibility to link work on MNC location strategy with the concept of ‘upgrading’ within the GVC literature?